



## CITY OF LODI COUNCIL COMMUNICATION

**AGENDA TITLE:** After Second Reading of Ordinance 1765, Approve Resolution Establishing Market Cost Adjustment(s) to be effective December 2, 2005 (EUD)

**MEETING DATE:** November 2, 2005

**PREPARED BY:** Interim Electric Utility Director

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**RECOMMENDED ACTION:** After Second Reading of Ordinance 1765, Approve Resolution Establishing Market Cost Adjustment(s) to be effective December 2, 2005.

**BACKGROUND INFORMATION:** On October 18, 2005, the financial status of the Electric Utility was reviewed with the City Council at a Shirtsleeve Session. This review demonstrated that:

- Purchased power expenses had increased by 29% over the prior year;
- The utility had been operating in a deficit condition (expenses exceeding revenues) since FY03, relying on fund balances (savings) to make up for the difference between revenues and expenses;
- Operating expenses would exceed revenues by \$9.2 million and all remaining fund balances (savings accounts) available to the electric utility would be eliminated during the current fiscal year if a Market Cost Adjustment to rates was not put in place; and
- Delays in implementing the Market Cost Adjustment would cause the electric utility to incur losses of approximately \$800,000 per month that would need to be made up through higher increases to all customers of approximately 1.2% per month for each month of delay in implementing the MCA.

On October 19, 2005, the City Council was presented with the financial information described above for a second time, along with information that set out the Market Cost Adjustment for each class of customer and an assessment of the effect of the recommended Market Cost Adjustment on the average customer within each rate class (See attached summary, Table 1). As part of the October 19, 2005 council meeting, the City Council also received feedback from the public, including the large industrial customers slated to receive the largest increases, that the magnitude of the increase was too large, and the timing of the increase with such short notice significantly and adversely impacted their budgeting and planning processes.

After hearing from staff and the public, and deliberating on staff and public comments, the City Council approved the first reading of Ordinance 1765, which would allow implementation of a Market Cost Adjustment through resolution, and directed staff to modify the originally recommended Market Cost Adjustment to reflect:

1. The recommended MCA for the I1 rate class should be reduced by 50%; and
2. No customers should receive a decrease in their bill as a result of the Market Cost Adjustment to reflect the principle that the entire community would help to solve the financial problem facing the electric utility.

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APPROVED:

*Blair King*  
Blair King, City Manager

**After Second Reading of Ordinance 1765, Approve Resolution Establishing Market Cost Adjustment(s) to be effective December 1, 2005 (EUD)**

**Page 2 of 2**

**November 2, 2005**

**Issue:**

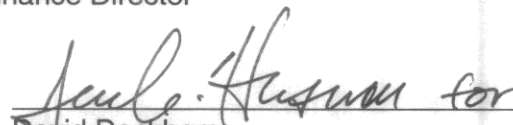
Staff is working on a new Market Cost Adjustment (MCA) table to reflect the policy direction expressed by City Council on October 19, 2005; this new table (and associated Resolution) will be distributed in advance of the November 2 Council meeting. For the residential class, the previous winter/summer split has been reduced to a winter MCA that will be applied to residential customer bills such that the end result is that no customer will see a decrease in billing as a result of the MCA and to reflect the fact that the long term rate structure will be put in place before the summer MCA would be applicable. For the industrial class (11 customers) the recommended MCA has been reduced by 50%. The new table will show the effect of these MCA modifications on an annualized basis on the average customer in each class.

Longer term, the 11 customers have agreed to fund a study that will quantify the economic benefits of industry in Lodi, such that the City Council can make an informed policy decision that incorporates the economic benefits of industry when the Council is asked to approve the long-term rate structure for industrial customers in Lodi towards the end of December.

**FISCAL IMPACT:** The fiscal impact of this action will be to reduce the imbalance between revenues and expenses as described in the body of this staff report.

**FUNDING:** Increased sales revenue associated with this action flow to the "Electric Operating Revenue" accounts.

  
James R. Krueger, Finance Director

  
David Dockham  
Interim Electric Utility Director

DD/lst

Attachment

cc: City Attorney  
Finance Director

TABLE 1

|                      | Lodi<br>Current<br>Revenue | Lodi<br>Energy<br>KWh | Lodi<br>Average<br>\$/kwh | Proposed<br>Lodi & PG&E<br>Rate | %<br>Change   | Revenue<br>at<br>Proposed Rate |
|----------------------|----------------------------|-----------------------|---------------------------|---------------------------------|---------------|--------------------------------|
| EA                   | \$ 19,637,674              | 134,010,453           | \$ 0.1465                 | \$ 0.1603                       | 9.38%         | \$ 21,478,985                  |
| EE                   | \$ 460,503                 | 3,550,200             | \$ 0.1297                 | \$ 0.1532                       | 18.10%        | \$ 543,866                     |
| ED Share             | \$ 813,324                 | 9,658,833             | \$ 0.0842                 | \$ 0.0927                       | 10.07%        | \$ 895,231                     |
| EM Domestic          | \$ 208,802                 | 2,634,762             | \$ 0.0792                 | \$ 0.1491                       | 88.09%        | \$ 392,735                     |
| <b>Residential</b>   | <b>\$ 21,120,303</b>       | <b>149,854,248</b>    | <b>\$ 0.1409</b>          | <b>\$ 0.1556</b>                | <b>10.37%</b> | <b>\$ 23,310,817</b>           |
| G1                   | \$ 6,568,419               | 42,511,770            | \$ 0.1545                 | \$ 0.1659                       | 7.39%         | \$ 7,054,106                   |
| G2                   | \$ 14,016,962              | 108,902,370           | \$ 0.1287                 | \$ 0.1496                       | 16.23%        | \$ 16,291,675                  |
| G3 Small             | \$ 1,534,402               | 13,092,777            | \$ 0.1172                 | \$ 0.1435                       | 22.47%        | \$ 1,879,240                   |
| G4 Medium Industrial | \$ 2,280,317               | 21,224,562            | \$ 0.1074                 | \$ 0.1232                       | 14.69%        | \$ 2,615,360                   |
| Dusk to Dawn         | \$ 34,228                  | 414                   |                           | NA                              | NA            | \$ 37,651                      |
| City ES              | \$ 761,616                 | 8,068,421             | \$ 0.0944                 | NA                              | NA            | \$ 837,778                     |
| <b>Commercial</b>    | <b>\$ 25,195,944</b>       | <b>193,800,314</b>    | <b>\$ 0.1300</b>          | <b>\$ 0.1482</b>                | <b>13.97%</b> | <b>\$ 28,715,810</b>           |
| G5                   | \$ 1,101,384               | 11,119,420            | \$ 0.0991                 | \$ 0.1141                       | 15.15%        | \$ 1,268,226                   |
| I-1 General Mills    | \$ 2,351,642               | 36,643,139            | \$ 0.0642                 | \$ 0.1141                       | 77.72%        | \$ 4,179,337                   |
| Contract Medium      | \$ 424,520                 | 4,980,041             | \$ 0.0852                 | \$ 0.1232                       | 44.55%        | \$ 613,657                     |
| Contract Large       | \$ 3,520,437               | 56,719,861            | \$ 0.0621                 | \$ 0.1078                       | 73.71%        | \$ 6,115,359                   |
| <b>Industrial</b>    | <b>\$ 7,397,983</b>        | <b>109,462,461</b>    | <b>\$ 0.0676</b>          | <b>\$ 0.1112</b>                | <b>64.59%</b> | <b>\$ 12,176,579</b>           |
| <b>System</b>        | <b>\$ 53,714,229</b>       | <b>453,117,023</b>    | <b>\$ 0.1185</b>          | <b>\$ 0.1417</b>                | <b>19.53%</b> | <b>\$ 64,203,205</b>           |

A RESOLUTION OF THE LODI CITY COUNCIL  
IMPLEMENTING AND ADJUSTING THE MARKET  
COST ADJUSTMENT FOR ELECTRIC RATES

DRAFT

WHEREAS, the Council of the City of Lodi finds as follows:

1. The City of Lodi provides electricity to its citizens through the Lodi Electric Utility Department;
2. The City charges customers of this utility a charge to fund the on-going operation and maintenance of the electric supply;
3. Wholesale electric costs have experienced severe volatility in the 2005-2006 budget year and price volatility is expected to continue into the 2006-2007 budget year;
4. The net cost for the cost increases in the 2005-2006 budget year has to date been borne by the Electric Utility Departments reserves and will if left unchecked, ultimately leave the account in a significant deficit;
5. The Lodi Municipal Code authorizes the City Council to impose by resolution a Market Cost Adjustment to address cost spikes in the wholesale electric market (Lodi Municipal Code Section 13.20.175).

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Lodi as follows:

Section 1. Recitals. The foregoing recitals are true and correct.

Section 2. Levy of Charges. Pursuant to Section 13.20.175 of the Lodi Municipal Code, the Market Cost Adjustment attached hereto as Exhibit "A" are hereby approved.

Section 3. Effective Date. This resolution shall take effect on December 2, 2005, thirty days following the date of its passage.

Dated: November 2, 2005

I hereby certify that Resolution No. 2005-\_\_\_\_ was passed and adopted by the City Council of the City of Lodi in a regular meeting held November 2, 2005, by the following vote:

AYES: COUNCIL MEMBERS –

NOES: COUNCIL MEMBERS –

ABSENT: COUNCIL MEMBERS –

ABSTAIN: COUNCIL MEMBERS –

SUSAN J. BLACKSTON  
City Clerk



filed 11-2-05

# Memo

**To:** Honorable Mayor and City Council Members  
**Through:** Blair King  
**From:** Jim Krueger  
**Date:** 11/2/2005  
**Re:** Electric Utility Information requested by Council Member Hansen

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Council Member Hansen requested information regarding the benefits of the Electric Utility to the City of Lodi. There are some benefits that can be readily quantified and others that are qualitative in nature. The following is a summary list of those items:

- Benefits that are difficult to quantify are the local control and high quality of service that are provided by the City of Lodi Electric Utility Department. With a utility that is owned and controlled locally the relationship between services being provided in a manner commensurate with expectations is less problematic. Decisions made and monitored locally usually provide the highest level of benefit to those served. There are also benefits associated with having electricians available to work directly for City departments. These electricians and other electric staff would not be available from a privately owned utility.
- The Electric utility transfers money each year to the General Fund. In fiscal year 2004-05 the amount transferred was \$9.4 million (\$2.9 million for administrative costs and \$6.5 million for other general fund costs). The dollar amount transferred (for general costs) has varied from year-to-year but the % has been the same (12%) from 1993-94 through fiscal year 2004-05. It was 9% before fiscal year 1993-94.
- Another benefit to the City of Lodi has been Street Lighting. The annual cost for street lighting is \$650,000. These costs are paid out of the Electric Utility budget with no impact on the General Fund. In addition the capital costs for phases 1-4 for "unlit" areas have been financed with debt proceeds from the Electric Utility Certificates of Participation. This financing would not have been provided by private utility if the Electric Utility were owned privately.

This is not intended to be an exhaustive listing of all benefits to the City of Lodi ownership of the Electric Utility and is being provided primarily as background information.

filed 11-2-05

# **Approve Ordinance and Review of Draft Resolution to Implement Market Cost Adjustment on December 2, 2005**

City Council Meeting  
November 2, 2005





# Overview

- **Action Tonight** - Council is requested to adopt Ordinance Amendment to effectuate change in adoption of Resolution
- Council is requested to review resolution and attached materials for approval at November 16, 2005 Meeting
- Staff will review
  - Revenue Requirements from Cost of Service Analysis (COSA)
  - Changes to Average Bills resulting from the Market Cost Adjustments





# Background

- Oct 18, 2005 Financial Review –Shirtsleeve Session
  - Purchased Power Costs have increased by 29% (Katrina/Rita Effect)
  - Utility was operating in deficit condition since FY-03
  - Expenses exceed revenues by \$9.2 million in FY-06
  - Electric Fund Balances would be eliminated if a Market Cost Adjustment is not implemented
  - Delay in implementing the MCA increases rate increase required by 1.2% per month of delay or \$800,000 per month





## Background (Cont.)

- Oct 19, 2005 City Council Meeting
  - Financial Information reviewed
  - Market Cost Adjustment levels proposed
  - Public Feedback on recommended levels of MCA
  - After deliberation council direction:
    - Eliminate any rate decreases
    - Reduce I1 increases by 50%



# Action

- Adopt Ordinance Amendment
- Review Market Cost Adjustment approved by Council motion
- Consider proposal to cover remaining deficit
  - \$1.5 million shortfall
    - \$500,000 via EUD/General Fund reductions
    - \$1,000,000 residential rate payers

# Table 2



TABLE 2

|                      | Lodi<br>Current<br>Revenue | Revenue<br>Per 10/19/2005<br>Discussions | Revenue<br>Required<br>Per COSA | Surplus or<br>(Deficit)<br>From COSA |
|----------------------|----------------------------|--|---------------------------------|--------------------------------------|
| EA                   | \$19,637,674               | \$22,182,716                             | \$21,478,985                    | \$703,732                            |
| EE                   | \$460,503                  | \$560,340                                | \$543,866                       | \$16,474                             |
| ED Share             | \$813,324                  | \$924,343                                | \$895,231                       | \$29,112                             |
| EM Domestic          | \$208,802                  | \$392,735                                | \$392,735                       | \$0                                  |
| <b>Residential</b>   | <b>\$21,120,303</b>        | <b>\$24,060,134</b>                      | <b>\$23,310,817</b>             | <b>\$749,317</b>                     |
| G1                   | \$6,568,419                | \$7,054,106                              | \$7,054,106                     | \$0                                  |
| G2                   | \$14,016,962               | \$16,291,675                             | \$16,291,675                    | \$0                                  |
| G3 Small             | \$1,534,402                | \$1,879,240                              | \$1,879,240                     | \$0                                  |
| G4 Medium Industrial | \$2,280,317                | \$2,615,360                              | \$2,615,360                     | \$0                                  |
| Dusk to Dawn         | \$34,228                   | \$37,651                                 | \$37,651                        | \$0                                  |
| City ES              | \$761,616                  | \$837,778                                | \$837,778                       | \$0                                  |
| <b>Commercial</b>    | <b>\$25,195,944</b>        | <b>\$28,715,810</b>                      | <b>\$28,715,810</b>             | <b>\$0</b>                           |
| G5                   | \$1,101,384                | \$1,268,226                              | \$1,268,226                     | \$0                                  |
| I-1 General Mills    | \$2,351,642                | \$3,265,270                              | \$4,179,337                     | (\$914,066)                          |
| Contract Medium      | \$424,520                  | \$613,657                                | \$613,657                       | \$0                                  |
| Contract Large       | \$3,520,437                | \$4,817,785                              | \$6,115,359                     | (\$1,297,574)                        |
| <b>Industrial</b>    | <b>\$ 7,397,983</b>        | <b>\$ 9,964,939</b>                      | <b>\$12,176,579</b>             | <b>(\$2,211,640)</b>                 |
| <b>System</b>        | <b>\$ 53,714,229</b>       | <b>\$ 62,740,882</b>                     | <b>\$64,203,205</b>             | <b>(\$1,462,323)</b>                 |

# Table 3

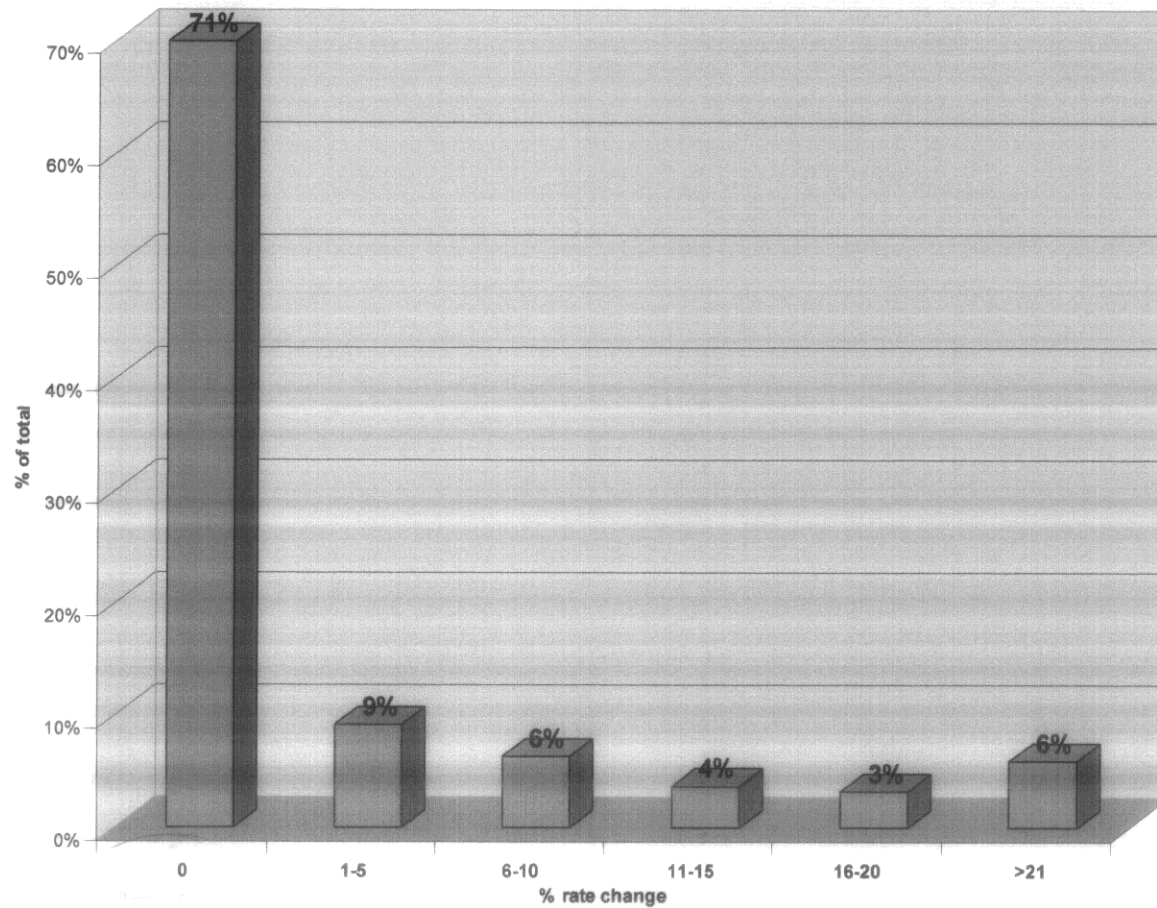


| TABLE 3  |                     |                    |                     |             |             |                              |
|--|---------------------|--------------------|---------------------|-------------|-------------|------------------------------|
| Effect of Interim MCA on Average Customer Bill |                     |                    |                     |             |             |                              |
|  | Number of Customers | Lodi Annual KWh    | Average Consumption | 10/19/2005  | 11/2/2005   | Equivalent Residential Units |
| EA   | 19,128              | 134,010,453        | 584                 | \$11.09     | \$15.30     |                              |
| EE   | 610                 | 3,550,200          | 485                 | \$13.63     | \$13.63     |                              |
| ED Share                                       | 1,731               | 9,658,833          | 465                 | \$5.35      | \$5.35      |                              |
| EM Domestic                                    | 490                 | 2,634,762          | 448                 | \$31.32     | \$31.32     |                              |
| <b>Residential</b>                             | <b>21,959</b>       | <b>149,854,248</b> |                     |             |             |                              |
| G1   | 3,032               | 42,511,770         | 1,168               | \$13.32     | \$13.32     | 2                            |
| G2   | 395                 | 108,902,370        | 22,975              | \$480.18    | \$480.18    | 39                           |
| G3 Small                                       | 8                   | 13,092,777         | 136,383             | \$3,586.88  | \$3,586.88  | 234                          |
| G4 Medium Industrial                           | 8                   | 21,224,562         | 221,089             | \$3,493.21  | \$3,493.21  | 379                          |
| Dusk to Dawn                                   | 96                  | 414                | -                   | \$0.00      | \$0.00      | 0                            |
| City ES  | 122                 | 8,068,421          | 5,511               | \$0.00      | \$0.00      | 0                            |
| <b>Commercial</b>                              | <b>3,661</b>        | <b>193,800,314</b> |                     |             |             |                              |
| G5   | 4                   | 11,119,420         | 231,655             | \$3,474.82  | \$3,474.82  |                              |
| I-1 General Mills                              | 1                   | 36,643,139         | 3,053,595           | \$76,034.51 | \$76,034.51 |                              |
| Contract Medium                                | 3                   | 4,980,041          | 138,334             | \$5,256.71  | \$5,256.71  |                              |
| Contract Large                                 | 5                   | 56,719,861         | 945,331             | \$21,553.55 | \$21,553.55 |                              |
| <b>Industrial</b>                              | <b>13</b>           | <b>109,462,461</b> |                     |             |             |                              |
| <b>System</b>                                  | <b>25,633</b>       | <b>453,117,023</b> |                     |             |             |                              |

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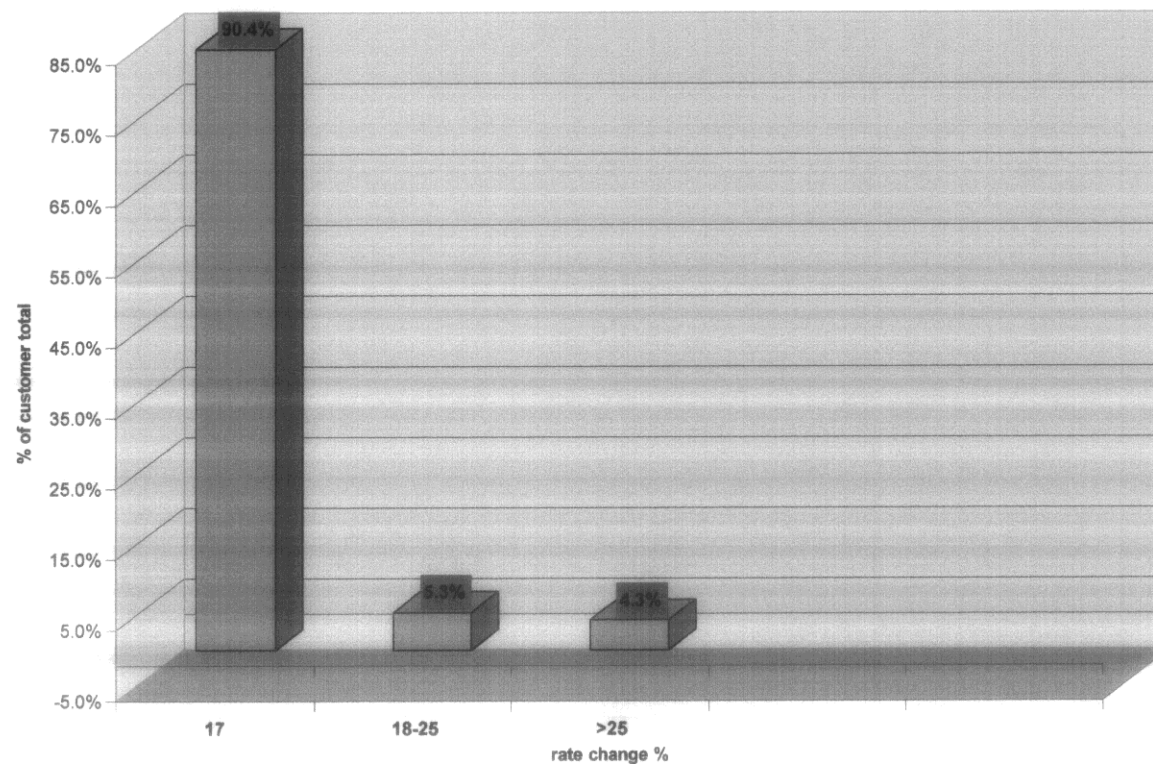
# Distribution under 10/19/2005 Proposal



# Distribution under 11/2/2005 Proposal



Residential Alternate Proposal  
rate change at % of customers







## Next Steps

- No further MCA for Industrial users proposed through this fiscal year
- Adopt MCA rate resolution on 11/16/2005
- Steps to Recovery
  - True up rates (little if any change to customers rates)
  - Operational policies and financial measures
  - Risk Management policies and procedures

filed 11-2-05

**TABLE 2**  
**Comparison of Revenues Required Under COSA vs Alternatives**

|                      | Lodi<br>Current<br>Revenue | Revenue<br>Per 10-19-2005<br>Discussions | Revenue<br>Required<br>Per COSA | Surplus or<br>(Deficit)<br>From COSA |
|----------------------|----------------------------|--|---------------------------------|--------------------------------------|
| EA                   | \$19,637,674               | \$22,182,716                             | \$21,478,985                    | \$703,732                            |
| EE                   | \$460,503                  | \$560,340                                | \$543,866                       | \$16,474                             |
| ED Share             | \$813,324                  | \$924,343                                | \$895,231                       | \$29,112                             |
| EM Domestic          | \$208,802                  | \$392,735                                | \$392,735                       | \$0                                  |
| <b>Residential</b>   | <b>\$21,120,303</b>        | <b>\$24,060,134</b>                      | <b>\$23,310,817</b>             | <b>\$749,317</b>                     |
| G1                   | \$6,568,419                | \$7,054,106                              | \$7,054,106                     | \$0                                  |
| G2                   | \$14,016,962               | \$16,291,675                             | \$16,291,675                    | \$0                                  |
| G3 Small             | \$1,534,402                | \$1,879,240                              | \$1,879,240                     | \$0                                  |
| G4 Medium Industrial | \$2,280,317                | \$2,615,360                              | \$2,615,360                     | \$0                                  |
| Dusk to Dawn         | \$34,228                   | \$37,651                                 | \$37,651                        | \$0                                  |
| City ES              | \$761,616                  | \$837,778                                | \$837,778                       | \$0                                  |
| <b>Commercial</b>    | <b>\$25,195,944</b>        | <b>\$28,715,810</b>                      | <b>\$28,715,810</b>             | <b>\$0</b>                           |
| G5                   | \$1,101,384                | \$1,268,226                              | \$1,268,226                     | \$0                                  |
| I-1 General Mills    | \$2,351,642                | \$3,265,270                              | \$4,179,337                     | (\$914,066)                          |
| Contract Medium      | \$424,520                  | \$613,657                                | \$613,657                       | \$0                                  |
| Contract Large       | \$3,520,437                | \$4,817,785                              | \$6,115,359                     | (\$1,297,574)                        |
| <b>Industrial</b>    | <b>\$ 7,397,983</b>        | <b>\$ 9,964,939</b>                      | <b>\$12,176,579</b>             | <b>(\$2,211,640)</b>                 |
| <b>System</b>        | <b>\$ 53,714,229</b>       | <b>\$ 62,740,882</b>                     | <b>\$64,203,205</b>             | <b>(\$1,462,323)</b>                 |

**TABLE 3**  
**Effect of Interim MCA on Average Customer Bill**

|                      | Number of<br>Customers | Lodi Annual<br>KWh | Average<br>Consumption | Interim<br>Council Direction | EUD<br>Alternative | Equivalent<br>Residential Units |
|----------------------|------------------------|--------------------|------------------------|------------------------------|--------------------|---------------------------------|
| EA                   | 19,128                 | 134,010,453        | 584                    | \$11.09                      | \$15.30            |                                 |
| EE                   | 610                    | 3,550,200          | 485                    | \$13.63                      | \$13.63            |                                 |
| ED Share             | 1,731                  | 9,658,833          | 465                    | \$5.35                       | \$5.35             |                                 |
| EM Domestic          | 490                    | 2,634,762          | 448                    | \$31.32                      | \$31.32            |                                 |
| <b>Residential</b>   | <b>21,959</b>          | <b>149,854,248</b> |                        |                              |                    |                                 |
| G1                   | 3,032                  | 42,511,770         | 1,168                  | \$13.32                      | \$13.32            | 2                               |
| G2                   | 395                    | 108,902,370        | 22,975                 | \$480.18                     | \$480.18           | 39                              |
| G3 Small             | 8                      | 13,092,777         | 136,383                | \$3,586.88                   | \$3,586.88         | 234                             |
| G4 Medium Industrial | 8                      | 21,224,562         | 221,089                | \$3,493.21                   | \$3,493.21         | 379                             |
| <b>Commercial</b>    | <b>3,443</b>           | <b>185,731,479</b> |                        |                              |                    |                                 |
| G5                   | 4                      | 11,119,420         | 231,655                | \$3,474.82                   | \$3,474.82         |                                 |
| I-1 General Mills    | 1                      | 36,643,139         | 3,053,595              | \$76,034.51                  | \$76,034.51        |                                 |
| Contract Medium      | 3                      | 4,980,041          | 138,334                | \$5,256.71                   | \$5,256.71         |                                 |
| Contract Large       | 5                      | 56,719,861         | 945,331                | \$21,553.55                  | \$21,553.55        |                                 |
| <b>Industrial</b>    | <b>13</b>              | <b>109,462,461</b> |                        |                              |                    |                                 |
| <b>System</b>        | <b>25,415</b>          | <b>445,048,188</b> |                        |                              |                    |                                 |

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